



**Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services**

**Subcommittee on Capital Markets
“Rating the Rating Agencies: the State of Transparency and Competition”
April 2, 2003**

Good morning, Mr. Chairman. I want to commend you for holding this important hearing to study the role and function of credit rating agencies in the securities markets. Over the past two years, this Committee has led the way on investor protection, beginning with an examination of Wall Street analysts and continuing with a review of accountants, corporate officers and boards, investment banks, mutual funds, and corporate governance practices generally. Our inquiries resulted in the Sarbanes-Oxley Act and other regulatory reforms. Now, we turn to credit rating agencies.

Sarbanes-Oxley required the SEC to submit to the Committee a report on rating agencies. That report was issued in January. I am pleased that the SEC's top market regulator, Annette Nazareth, is here this morning to discuss its contents. I know that members of this Committee have questions about the Commission's oversight of this industry.

Some commentators have called for greater transparency in the rating process and have raised questions about potential conflicts of interest that arise because agencies collect fees from, and sell other services to, the companies they rate. We have seen so many instances where greater transparency has led to better functioning markets, and more informed investors. The similarities between the potential conflicts of interest presented in this area and those that were addressed in the area of accounting firms in Sarbanes Oxley are impossible to ignore. I look forward to our panelists' views on the need for more disclosure and clarity in the rating process.

Beyond the potential conflicts and the lack of transparency, some have questioned the reliability of the ratings themselves, particularly in light of the rating agencies' failure to warn investors about the impending bankruptcies at Enron, WorldCom, Global Crossing, and other major companies.

There are also concerns regarding the openness of the industry, and whether anticompetitive barriers to entry exist for ratings firms seeking recognition by the SEC. We're all familiar with the accounting scandals which turned the Big Five into the Final Four, and the resulting concerns that have been raised. Somehow, the fact that – until very recently – there were only three SEC-recognized credit rating agencies has not seemed to garner the same level of scrutiny. The Commission has recognized only one new firm in over a decade.

I am concerned that the Commission may have allowed an oligopoly to exist. I hope and expect to hear from the SEC on how they plan to clarify and improve the application process for firms striving to qualify as recognized rating agencies.

Thank you, Chairman Baker, for holding this hearing. Focusing attention on the role of rating agencies, and examining the current levels of disclosure, competition, accuracy, and regulatory oversight in the industry, will surely benefit investors and the market.